This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 ABUJA 001162

SIPDIS

E.O. 12958: DECL: 04/12/2012
TAGS: PGOV ELAB EFIN PINS NI
SUBJECT: NIGERIA: STATES'S INABILITY TO PAY WAGES RAISES
CONCERN

Classified by Ambassador Howard F. Jeter; Reasons 1.5 (b) and (d).

¶1. (C) Summary. State governments are sounding the alarm that they can no longer pay civil service salaries and retiree pensions. When oil prices and revenues were high in May 2000, civil servant wages were more than doubled. However, federal revenues allocated to the States have dropped in tandem with oil price declines, and many States complain they are unable to meet their wage bills. However, many observers, including the Central Bank, believe that the States' fiscal irresponsibility is the primary cause of the current wage crisis. Meanwhile, civil servants across the country are threatening strikes if the problem is not resolved soon. A civil service strike would be a big blow to the Obasanjo Administration. End Summary.

--- ---------
Lower State Revenues Plus Higher Wages Leads to Trouble
--- ---------

¶2. (U) In May 2000, State wage bills more than doubled when President Obasanjo increased the minimum civil service wage of both the States and Federal government from N3,500 to N7,500/month (USD 64). For over a year-and-a-half, high world oil prices allowed sufficient funds to flow from the Federal government to the State capitals. States did not have to juggle priorities to meet higher payroll costs. However, since November 2001, lower oil prices and OPEC quota cuts have reduced federal allocations to the States by nearly one-third. Monthly allocations to State governments fell from N145.5 billion in October 2001 to N116.5 billion in November and December 2001 to N100.03 billion in January ¶2002.

¶3. (U) As a result, employees and pensioners in many States have received little or no compensation since January 2002. There is a hiring freeze in most States, and new and existing State projects are reportedly being abandoned. Non-paying States include Anambra, Edo, Enugu, Abia, Imo, Bauchi, Borno, Benue, Oyo, Ogun, Ekiti, Kaduna, Cross River and Akwa Ibom. Ogun State reported that the state wage bill has grown from N87 million in 1999 to N520 million in 2002 while pensions have grown from N35 million to N125 million in the same period. Ekiti State reported receiving N270 million from the federal government in February 2002. Ekiti's monthly wage bill is N420 million, including pensions. Kaduna claimed that its revenue allocation had dropped by 50 percent, resulting in a cut of all new projects.

¶4. (C) Central Bank Director for Research, Dr. Joseph Nnanna, commented to EmbOff that the problem is "80 percent States' fiscal irresponsibility and 20 percent the fall in federal allocations." Central Bank Governor Sanusi had repeatedly warned State Governors to save money when oil prices remained high in order to compensate for truncated revenues during times of low oil prices. Too many governors turned a deaf ear to Sanusi's advice. Now, without the generous cash flow created by liberal oil prices, the Central Bank's mid-2001 directive prohibiting commercial banks in Nigeria from lending to State governments has closed off the most probable stop-gap for the governors. State governments, therefore, are hard-pressed to compensate for the shortfall in expenditures. They have to swallow the bitter pill of spending cuts.

Labor Unrest

¶5. (U) States' inability to pay employee and pensioner wages have led to localized strikes in different areas across the country. In Anambra, secondary schools have been closed since November 2001 following a strike by teachers over nonpayment of salaries amounting to N270 million (USD 2.3 million). These strikes and work stoppages have produced an adverse ripple effect in some instances. In Oyo state, a

strike by State water corporation workers was accompanied by an outbreak of cholera and other water-borne diseases due to an acute scarcity of potable water. In Bauchi, magistrates and other judiciary staff issued a two-week ultimatum ending April 19 for payment of salaries due since November 2001, threatening an indefinite strike if payment is not made. There are numerous other examples of strikes by State civil servants, even as groups still on the job increasingly threaten to walk out.

States Blame the Federal Government

¶6. (U) Trying to divert the blame, many State officials and national legislators are pointing the finger at President Obasanjo. These groups are saying that the President erred by not consulting them prior to his May 2000 announcement doubling wages. Senate Chairman for the Committee on Employment, Labor and Productivity Bello Gwarzo opined that President Obasanjo should have brought his proposed wage increase to the national legislature rather than unilaterally declaring the increase. A bill would have been debated on the floor and subject to public hearings during which State governments would have had the opportunity to raise their concerns. Instead, after the President made his announcement, governors and legislators felt compelled to support the increase. (Comment: These bellows from Gwarzo and others are disingenuous. The National Assembly could have debated the wage increase. However, the increase was popular at the time and few, if any, were willing to take a public stand against it. End Comment.)
¶7. (U) Accompanying the minimum wage increase in May 2000, the entire government wage schedule was revised upwards to reflect the increase at the lower end. Although Federal and State government schedules are not directly linked, the President's announcement of a nation-wide wage increase effectively tied the two together. Therefore, the same increase was applied to both a mid-level government employee in Bauchi and a mid-level employee in Abuja despite the wide disparity in the cost of living. State officials complain that the Federal government, particularly the President, should not set nation-wide wage levels, suggesting the Federal government only set the national minimum wage, allowing States to determine their own salary structures more in line with local costs of living. A corresponding increase in employee allowances, which supplement salaries through the provision of personal vehicles, housing, furniture, etc., unlike the wage increase, were determined on a State-by-State basis.

¶8. (U) The National Labor Congress is lobbying hard for a promised 25 percent wage increase nation-wide. The President last year pledged to implement the increase in April 2002, but this is now unlikely to happen. State governors argue that the 25 percent increase, if adopted, should only apply to Federal government workers with a correspondingly lower increase applied to State employees.

Comment

¶9. (C) The failure to pay civil servants is the most salient sign that State budget outlays far exceed revenues. This is partly due to the shrinkage in the allocations from the Federation Account. However, mismanagement and corrupt practices are also a heavily contributing factor. Most governors have adequate money if they don't misspend on massive prestige projects in Abuja, foreign travel and public works contracts given to friends and relatives who will be expected to finance their re-election campaigns. But with elections less than a year away, governors and State and local officials will be prone to divert funds for these campaigns and to give contracts to supporters in order to bolster their reelection ambitions. During the period of tight money, the States cannot continue "business as usual" and also pay their civil servants. State and local governments are the largest employers in most communities. Failure to pay civil servants will cripple local economies. Moreover, the hiring freeze imposed by some States will contribute to unemployment. Additionally, State-level projects, many of which focus on health, education and agriculture, have been suspended due to lack of funds and thus the scant social services being provided will be further reduced in many areas.

¶10. (C) The ripple effect of the States' financial woes is serious and could cause widespread hardship amidst a citizenry already struggling to make ends meet. The GON's

recent round of tariff rises will increase the cost of staples, such as rice, and therefore heighten misery. While fiscal discipline by the states is the first, most important step, the Federal government may need to take remedial action. However, there are no clear signals from the States as to how they plan to cope nor from the Federal government as to how it plans to help. Recent rises in world oil prices may provide some relief to state coffers. Additionally, the GON could consider lending money to the States to see them through this dry period, although this is unlikely. The Supreme Court's recent decision to prohibit the deduction of first line charges before the Federal government remits allocations to State and local governments will augment State resources, but only minimally (reported septel).

¶11. (C) In a sense, the Federal government has the governors on board. Failure to pay wages could be a blow to a governor's electoral chances. Should the Federal government help bail out the States, a political price tag likely will be attached and President Obasanjo will expect the governors to remember, come election time, that he is their creditor. If action is not taken and the States continue to miss wage payments, the country risks a more generalized civil service strike that might not only bring things to a halt but might result in significant disorder. This comes at a time when the Nigerian Labor Congress has threatened a national labor strike unless the Federal government implements the 25% wage increase agreed to last year. One or both strike actions would be a serious blow to the Obasanjo Administration. End Comment.

Jeter